RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 6, 1995 **LETTER 1188**

THE PICTURE: *"Up and up it goes, and where it stops nobody knows."* Am I talking about the birth rate in Ghana or the numbers of new Internet access companies being formed? No, I'm talking about the stock market, and more specifically about the Dow. The Dow is doing its own imitation of a sky-rocket or what, when I was a kid, we used to call a Roman Candle.

You've obviously noticed that the D-J Industrial Average has been THE big leader, the bellwether of the market's 1995 rise. Question: is there any valid reasons for the sensational *Dow rise?* Answer: the market hasn't lost its mind, there are always reasons.

(1) Many (most) of the big Dow stocks are international in scope. They want to *sell the world,* which means that a goodly percentage of the profits of the Dow stocks come from exports. And the fact is that the world is now opening up. For instance, the president of Goodyear recently stated, "Half the world wasn't available to us five years ago," now it is. The *WSJ* (Nov. 22) put it this way, "People think of the Dow as an indicator of how the US economy is doing, but today it's really an indicator of how the world economy is doing."

(2) Economically, the US is doing better than most other countries. I study the "Real Gross Domestic Product" section of Ed Hyman's *International Economic Review* charts. Japan, Germany, France, UK, Canada -- all their GDPs are in downtrends. The US is doing better. And leading the US economy are the big Dow-type stocks. The Dow stocks are international stocks of the US.

(3) And maybe this is the "big one" -- just plain steadily declining interest rates.

MARKET ACTION: As recently as November 29 both the D-J Industrial and the D-J Transportation Averages hit record highs. As a rule, simultaneous new highs constitute a powerful signal for further upside action. One caveat -- ultimately there will be an upside confirmation which will be the final upside confirmation, preparatory to a bear market.

To put it another way, each successive upside confirmation in a bull market possesses *less authority* than the previous one. Was November 27 that final upside confirmation? The odds are always against it. But remember -- this is the oldest bull market in history, it's the most uncorrected bull market in history, and it's the most overvalued bull market in history. Therefore, nothing that happens in this market should surprise us, and I emphasize the word NOTHING.

How about a correction? The absence of anything resembling a market correction has been simply amazing; it's historic. For instance, the broad S&P 500 has not suffered a decline of as much as 3% during 1995. This has never happened before in all stock market history. What are the reasons? Why have the "big averages" been literally immune to decline?

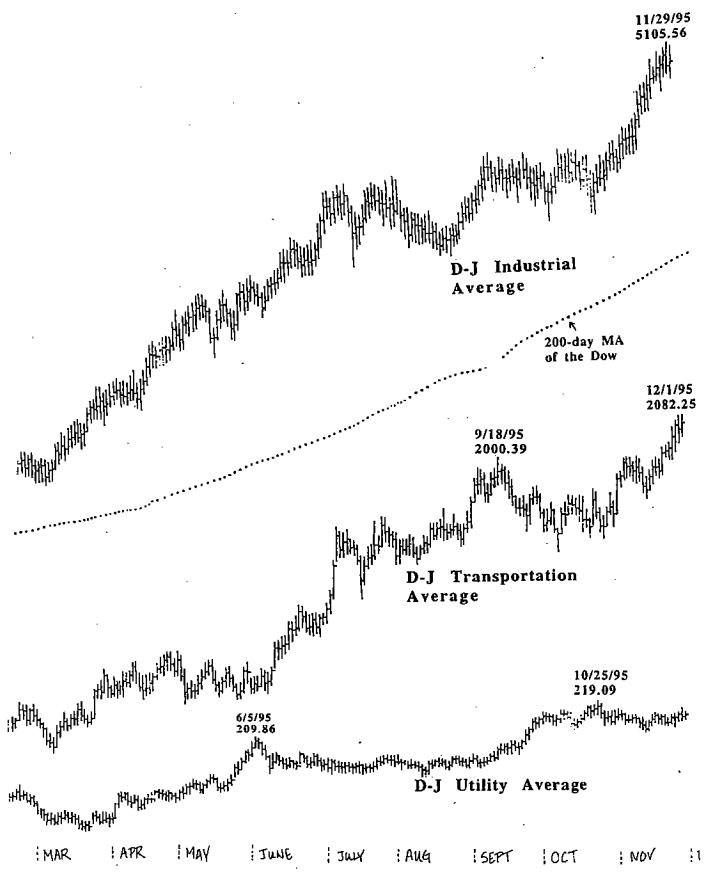
The Russell opinion -- extraordinary enthusiasm and ingrained bullishness are the reasons for the total absence of correction. Of course, there's a third reason. The investing public has had the "bit in its teeth." They've accepted the concept that buying stocks and holding those stocks "forever" is the road to retirement and riches. The public remains starry-eyed as it reads thrilling stories about Warren Buffett and Bill Gates and Peter Lynch and a seemingly endless parade of newly-created millionaires and billionaires. As a result, money is pouring into mutual funds at the fantastic rate of $8 to $12 billion a month.

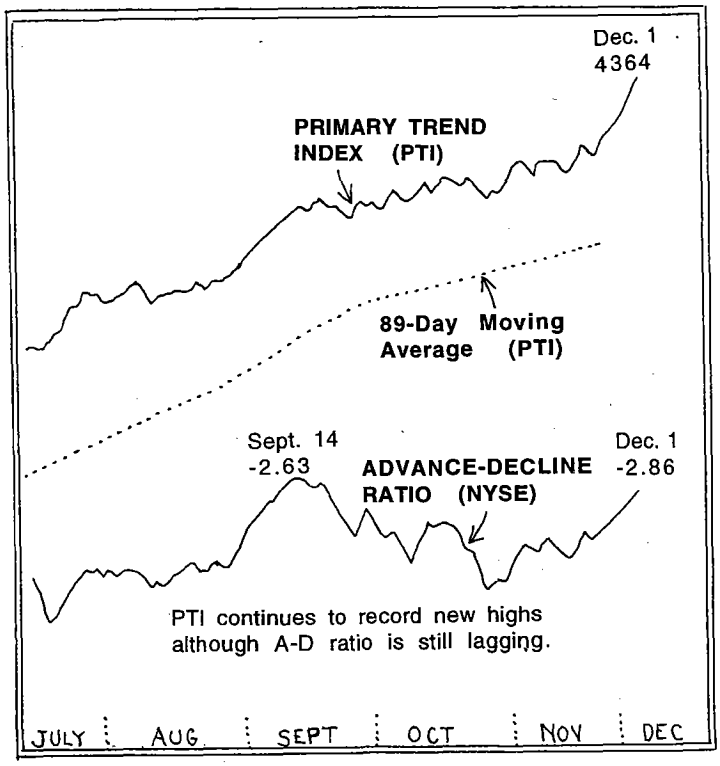
Nov. 24 DJIA 5048.84; PTI 4332; A-D Ratio -3.40
Dec. 1 DJIA 5087.13; PTI 4364; A-D Ratio -2.86
Dow Yield: 2.30%; Dow Price/Earnings: 15.5
Dow 200-day MA: 4531; Dow 30-day MA: 4893
Dow Times Book Value: 3.89; PTI 89-day MA: 4275
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 386.19; Gold-PTI: 618

UNPRECEDENTED: And it's all taking place amid a flurry of unprecedented statistics. Check it out -- the dividend on the Dow is currently $117.33. That means that the dividend yield on the Dow is at an historic low of 2.32%. Furthermore, the Dow is selling at 43.2 times dividends, a multiple never seen before (in the past the "danger level" was put at around 30 times dividends).

As an added kicker, the divisor for the Dow is now at an all-time low of 0.346, which translates into extreme leverage. It means that every one point in a D-J Industrial stock translates into a move of 2.9 points in the Dow. So if five Dow stocks rise one point each, the Dow rises 14.5 points. (The divisor for the Transports, by the way, is 0.544.)

At this point, many of the market bears are beginning to doubt their own opinions and predictions (and sanity?). Other bears have openly capitulated or lapsed into sullen silence. Last week one





bearish service wrote, "I've begun to believe this market will not come down of its own weight. It will take an (in)action to do it such as interest rates going back UP instead of down, a recession, etc."

Again, the Russell Opinion: This bull market will end the same way all other bull markets have ended -- *in exhaustion.* It will not end on a news event, it will not end with a government-declared emergency or even a war. Bull markets only end in exhaustion; they end when the last buyer is tapped out, and when a rising number of sellers overwhelm the buyers.

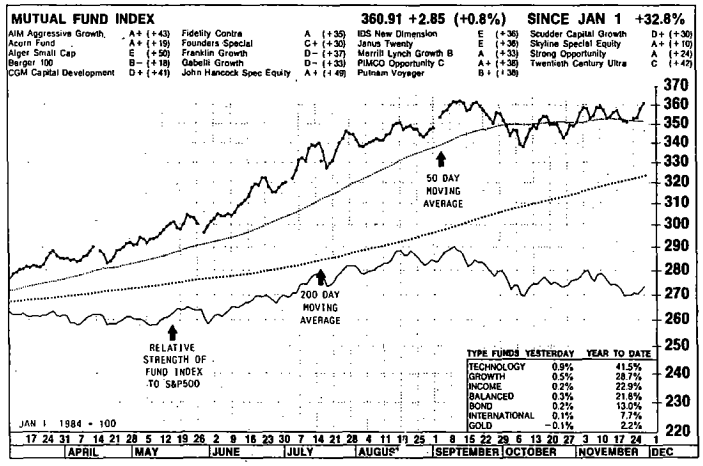
Last week produced one bullish phenomenon which may not have been noticed by most observers. On November 29 the Dow advance-decline line finally rose to a new high, thereby confirming the new highs in the Dow price (see chart on page 2 of the last Letter).

Aside from the action of the Averages, the two indicators that I watch most closely are my **Primary Trend Index (PTI)** and the **advance-decline ratio** for the NYSE.

The PTI has been (at least for me) the single most valuable of all the indicators. The PTI has been marching relentlessly higher week after week, month after month, even in periods when the A-D ratio diverged, even in periods when the Transports and Utilities lagged, even in the face of my own doubts, even in the face of acute overvaluation in the market.

There is a third indicator which I consider very significant. It is *Investor's Business Daily's* Mutual Fund Index. This is an Index of 20 well-known growth funds. I feel this Index is a reasonable proxy for where the public is as far as their investment in funds is concerned.

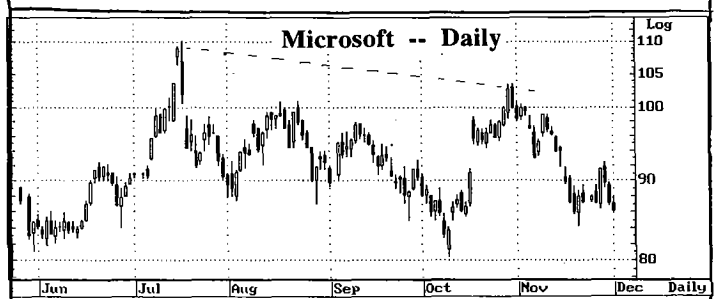
Note that the Funds are having a harder time now in keeping up with the "market." The relative strength line on this chart traces the performance of the Fund Index compared with the S&P 500. The Fund Index hit its peak of strength in early September -- since then the relative strength of the Fund Index has been declining. The relative strength line hit a low of 269 in early October. Now I want to see whether relative strength holds or whether it will bearishly break to a new low in the period ahead.

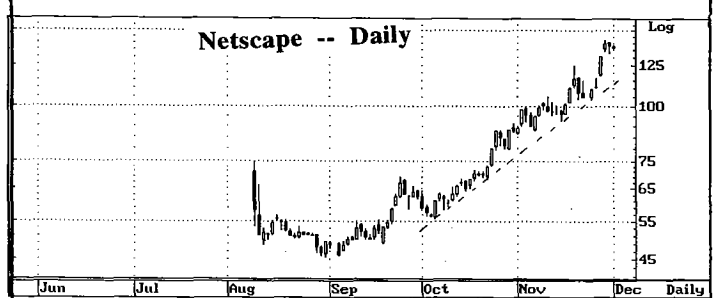

MUTUAL FUND INDEX
360.91 +2.85 (+0.8%)
SINCE JAN 1 +32.8%
50 DAY MOVING AVERAGE
200 DAY MOVING AVERAGE
RELATIVE STRENGTH OF FUND INDEX TO S&P500
TYPE FUNDS YESTERDAY YEAR TO DATE
TECHNOLOGY 0.9% 41.5%
GROWTH 0.5% 28.7%
INCOME 0.2% 22.9%
BALANCED 0.3% 21.8%
BOND 0.2% 13.0%
INTERNATIONAL 0.1% 7.7%
GOLD -0.1% 2.2%
JAN 1 1984 = 100
APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DEC

INVESTMENT POSITION: What can you say when the Dow is selling for a record 43 times its dividends? You can say, "Buy 'em and hope," or you can say, "Buy 'em and run if the market turns down," or "Sit with what you have, and hope the market doesn't correct," or, "Be patient, the market is always there" or, "Just buy the stocks that are going to go up."

Actually, I could dream up another dozen or so "instructions," but I'd just be bandying words. The fact is that this bull market is very expensive, but it's still very reluctant to give up the ghost.

I will say that I'm fascinated by two stocks, Microsoft and Netscape. Netscape keeps spurting to what seems ridiculous new highs, while Microsoft appears to have topped out. Is this action telling us that the future of the world lies with the Internet, and that Microsoft is too big and heading in the wrong direction? I dunno, I just watch the two stocks, and I am amazed at the disparity that is building. Obviously, something is brewing.





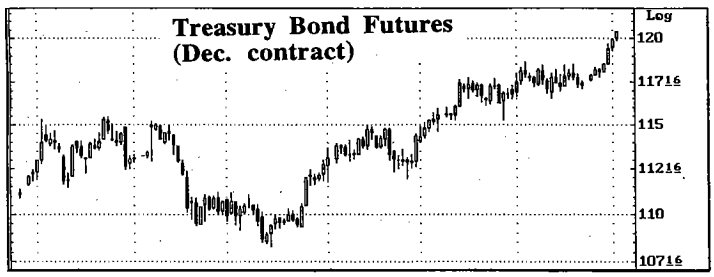
As for our investment position, I'm conservative, and I do feel that this market is wildly speculative. Consequently, I'm being very defensive, and that's the position I think subscribers should adapt.

BONDS, BILLS, YIELDS, DOLLARS: The yield on the 91-day Treasury bills is now around 5.50%. Go out two years and you'll get roughly the same yield. To capture a bit more, say 6%,

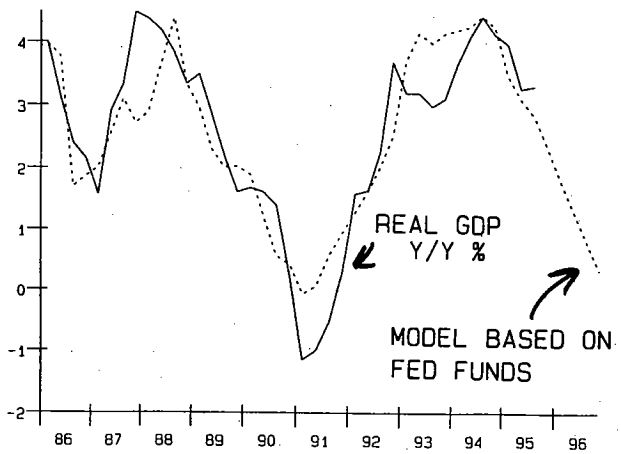
you have to go out 12 years. From there the yields flatten out, rising slowly to around 6.40% in the year 2014.

So the obvious question is -- why go out 15 or 20 years for less than an additional 1% in yield? There's only one reason -- you think interest rates are still attractive here, and that they will be heading even lower in the future. Therefore, you move to lock in today's 6% yields (who knows, maybe our politicians will actually balance the budget and then rates could collapse, right?). And there's always this -- if you take a big leveraged position in bonds, and yields head down, you're going to make a killing. But for that you have to have a LOT of faith that rates are going down.

I'm including here a weekly chart of the T-bonds going back to early '94. You can see that the rise of the last year has been a hugely profitable move. The only question is, "Where do we go from here?"



The chart below might provide a hint. It's Ed Hyman's chart of a model based on Fed Funds. States Hyman, *"Changes in Fed Funds lead real Gross Domestic Product by roughly 18 months."* If that holds true, the US economy should be easing off well into '96, and this in turn could pressure the Fed to lower rates. Has that turn of events already been discounted by the bonds? If it hasn't, then rates could go lower and the bonds could move to new highs (as they're now doing). At any rate, that's what I feel is the best argument for higher bond prices as the markets move into the new year.



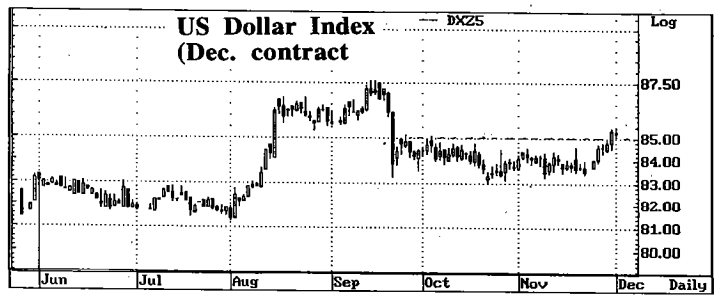
ITEM: Thirty-seven major bond firms underwrite the government's total of $3.26 trillion in marketable securities.

Note: Municipal bonds are now yielding approximately 90% of Treasury bonds. This is very unusual in the world of munis. It suggests either (1) that munis are a bargain compared with T-bonds OR that (2) the Muni market is planning for some kind of flat tax or national sales tax, either of which would render munis much less attractive. So if you're a muni buyer, the question you have to ask yourself if this: "Do the politicians have the brains and the guts to jettison the current ridiculous tax system and institute a flat tax or a national sales tax?" Warning -- remember, politicians seldom do anything unless they're faced with the pressure of an emergency or unless it clearly benefits the politicians.

DOLLAR: How about the dollar? The dollar appears to be basing, bouncing around, but refusing to break to new lows by a wide margin. Columnist Andrew Krieger in the Dec. 4 *Forbes* makes the case for **a longer-term fundamental rise in the dollar.** I tend to agree with Krieger. He points out that the US is now cooperating with Japan in a joint effort to generate a higher dollar. He also notes that the Swiss franc is in a "bubble condition," having been driven higher by large foreign inflows of capital. The D-mark has risen strongly along with the Swissie.

With the US moving to balance its budget (or at least improve it), and with the US trade balance improving dramatically, the dollar could be moving into position for a major rise against the yen and the European currencies. The chart below traces the dollar index going back to June of this year.

And here's what I'm wondering -- just as the stock market advanced in extent far beyond what even the bulls expected, could the dollar be preparing to do the same? It's a thought. But here's another thought -- a strong dollar will hurt US exports while at the same time help foreign sources who want to export to the US.



NEW BUSINESS: Many subscribers have written to ask, "Russell, after writing Dow Theory Letters for the last 37 years, why in the devil have you started a new business?" And my answer is, "Because it's fun, because it makes sense, because it's fascinating, and because it's profitable -- profitable for both me and those who've joined me."

At any rate, since my first announcement in these Letters earlier in the year over 125 subscribers have joined us. So, if you're interested, just drop a line and I'll be happy to provide you with details. There'll be no obligations, no pressure, no phone calls, no annoying nonsense. And I do think, if nothing else, you'll find the material that I send you both interesting and informative. It will introduce you to a (huge) world that I doubt you know much about.

NOTES & QUOTES: Go figure. Clinton, a president who lives and breathes to be re-elected, puts his presidency on the line by announcing that he's sending 20,000 Americans to blood-soaked Bosnia. If it works and peace is the result (and I'm doubtful), he may come out all right. But if the body bags start coming home, my guess is that Clinton will be history.

Clinton's blatant lying about Medicare ("Medi-scare") has got me seeing red. This from Robert Samuelson's column in the liberal, Democratic *Washington Post:* "We have witnessed a spectacle in the last two weeks that, though not unique in American History, is certainly remarkable. It is the spectacle of a president actively striving to poison public opinion against a policy that he deems best for the country -- all to bolster his own political stock. There is no other way to describe President Clinton's behavior on the budget." **Russell comment:** Is there no depths to which Clinton will not descend? The last time I was this angry at a President was when Eisenhower refused to take a stand against Joseph McCarthy, even as that paranoid Senator terrified the nation.

* *

What do I think about Bosnia? I agree with the Nixon doctrine, which states: (1) Honor all treaties and commitments in responding to those who invade our allies' lands. (2) Provide a nuclear

umbrella to the world against the threats of other nuclear powers. (3) Provide weapons and technical assistance to other countries where warranted, but do NOT commit American forces to local conflicts. IF YOU BELIEVE IN THE NIXON DOCTRINE, YOU DON'T WANT OUR TROOPS IN BOSNIA.

* *

A few weeks ago AT&T announced that it was going to jettison 77,800 managers (half of all its supervisors). Will AT&T survive with all that dead wood gone? Bet on it. In view of Telephone's chopping and slicing, you have to wonder what would happen if half of those "800,000 non-essential" government workers were sent packing. Would the US government survive? Bet on it.

* *

Remember all those government departments that the Republicans promised to shut down -- Transportation, Housing, Urban Development, Energy, Education, Agriculture, Interior, you name it? Well, of course it never happened. Even the Commerce department, the first on the list and the easiest to cut out, is still with us. Promises, promises.

* *

You have to hand it to the ever-campaigning President Clinton. He sure knows where his bread is buttered. He's zeroed in on the public's dislike of government in general. Consequently, Clinton's been attacking the Republicans for "destroying" Medicare and Medicaid and welfare as well as crushing old folks and children. Since the public doesn't know what the hell is going on in Washington, Clinton figures that terrifying Americans as to what the Republicans are doing is the way to go. Clinton lied through his teeth about the GOP's plans for Medicaid and Medicare, since all the GOP wants to do is cut back on the exploding growth in these programs. But the Clinton attack-scheme is working, and the president's "popularity" is rising even as the GOP's sinks. As I've said before, bet on a Democrat president and a Republican Congress in '96.

* *

Few people realize it and even fewer are complaining but strange things are happening. The Federal Reserve is becoming the "bank of last resort" to the world. First it arranges a huge multi-billion dollar bail-out of Mexico, with the excuse that a Mexican collapse is a clear and present danger to the US (meaning, of course, a danger to US banks and mutual funds). Then the Fed announces that it will buy back any amount of US bonds from Japan, should Japan's shaky financial system need an infusion of liquidity. Walker Todd, a former senior official with the Fed, challenges that the Fed's becoming "the big nanny of the payment system of the whole world . . . It's unprecedented, it's illegal, and it will always be cited. In 20 years we could hear President Al Gore telling us the he's going to lend $50 billion to Brazil from an exchange stabilization fund. And he'll say, 'You can't tell me I can't do it, because it's been done before -- with Mexico and Japan'."

* *

Germany's moving slowly but surely into trouble. Germany's competitive position is being endangered by a mountain of exorbitant taxes and welfare payments, the world's highest labor costs, a short work-week and one of the globe's most expensive currencies. The latest pressure on Germany is relentless competition from the rest of the world and Germany is not equipped to handle it. Finally, capital has been pouring out of Germany at an accelerating rate. The feeling is that Germany must start down-sizing "like the US" or face rising unemployment and a declining standard of living.

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What about Norway? Norway is one of the most prosperous nations on earth, one reason being oil. Few people realize that Norway is the world's number two oil exporter (after Saudi Arabia) with exports from its giant North Sea reserves of 3.3 million barrels a day. Norway also has huge reserves of natural gas and expects to boost sales from the current 27 bn. cubic meters to 70-80 BCM by the end of the century.

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Have you been on the Internet yet? I have, and I can tell you that it's interesting and mighty SLOW. Here's what Bill Joy, CEO of Sun Microsystems (the spiritual leader of Bill Gates' opponents) says about the World Wide Web: "First, you can't believe the amazing things you're seeing: that you could be looking at the ridiculous home page of some high school kid in Zimbabwe, or tracking your FedEx package delivery or checking out the weather in Tokyo . . . Then you realize how chaotic it is and how easy it is to get lost in it because you get so distracted along the way. Finally you realize how truly bad a lot of Websites are, and how frustrating and slow it can be. That's when you wish the Web pages could actually *do* something once they show up in your computer besides sit there."

* *

The Christmas Neiman Marcus catalogue is famous for featuring some exotic, expensive "toy" that only Texas millionaires can afford. This year's catalogue featured a James Bond style BMW roadster. Within 48 hours Neiman sold out 100 of the flashy cars (which was all the inventory they had), but incredibly, Neiman now has a waiting-list for 5,000 more of the cars. Hey, let the good times roll.

* *

Speaking of good times, Lawrence Ariana of the Kaufmann Fund has built a fine performance record with the help of many Initial Public Offerings. The IPO market is now roaring. This November alone has produced over 83 IPOs totaling a huge $4.7 billion (up from 36 in September and 61 in October). Another 76 IPOs are scheduled for December. States Ariana, "There's been some diminution in quality over the last month or so. You have companies that have had mediocre records for three or four years, that have put together a good six months, that are going public at substantial valuations." Says Bill Smith, an analyst at Renaissance Capital, "In this short time frame, October and November, we've never had this volume of deals. It's unbelievable the amount of product that's being pushed into the marketplace right now." On top of this, records are being set for secondary offerings. It seems that whatever can be moved and sold is being moved and sold. It's a market that's frantic to buy almost anything.

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I like a good advertisement, but if I see one more face with that dopey milk line on its upper lip I'll stop putting milk on my Wheaties. Furthermore, that can't be milk, it's got to be heavy cream or maybe white paint.

* *

Bill Gates is out with his new book, "The Road Ahead." Gates says that the information highway will help business improve productivity, but many workers will suffer because the highway will also promote a leaner corporate world and generate layoffs. He adds, "Lost of companies will eventually be far smaller because using the information highway will make it easy to find and work with outside resources." Gates describes the info highway as a market that he believes will eventually become the "world's central department store. It will be where we social animals will sell, trade, invest, haggle, pick up stuff, argue, meet new people, and hang out."

Russell comment: I don't doubt any of the foregoing. But also, I think the Internet will militate towards people moving out of the cities and out of even the suburbs -- towards small towns in many of the under-populated states such as Montana, the Dakotas, Nevada, Iowa, Idaho, etc. Also, and I've said this before -- the major problem in the future is going to be employment, getting a job. Computers mean downsizing, fewer employees. The computer will prove to be a "killer" for the uneducated, the computer-illiterate, the person whose only skill will be flipping hamburgers (actually, the unemployment problem is with us already).

How to prepare for loss of income

By Christine Dugas
USA TODAY

Last week's government shutdown highlights the need for everyone to be prepared for the loss of a job or income.

"There are plenty of people who are living paycheck-to-paycheck and do not have savings to fall back on," says Ruth Susswein, executive director of Bankcard Holders of America.

Although it's hard to predict when a financial emergency might strike, you can set up a fund to cope with unexpected problems. Experts often advise keeping enough money to pay three to six months' expenses

By Dan Bono, USA TODAY
Defiweller: Can borrow from 401(k)

Protecting your credit rating

When bills are due and money is tight, there are some strategies that can help get you through a temporary crunch:

MORTGAGE: Your mortgage is your most important bill — try to pay it first. A late payment might be reported to credit bureaus after 30 days. If you are 90 days or more overdue, that will almost certainly appear on your credit record.

CREDIT CARDS: Visa and MasterCard are the most valuable references on your credit report, so pay them on time, even if you only make the minimum monthly payment.

AMERICAN EXPRESS: American Express cards must be paid in full each month. If you don't pay, you are considered late and that information will likely be reported to the major credit bureaus.

CAR LOANS: You don't want to get behind on a car loan because in some states your car can be repossessed after you've missed only one payment. If your car is worth more than you owe on it, you may be able to refinance your loan with lower monthly payments. If not, your lender may agree to a temporary schedule of reduced payments.

How to cope

Some advice on coping with an interruption in pay:

- Set up a plan that lets you live on cash, not credit, even if you have to cut back on movies and restaurant meals.
- Figure how much you need for essential monthly expenses and stick to that.
- Plan not to touch your retirement funds.
- Contact creditors and work out payment plans.
- If you must use credit cards, use the card with the lowest interest rate.
- Contact a Consumer Credit Counseling Service in your area. To find one, call: 1-800-388-2227.

* *

The current issue of "Popular Mechanics" magazine contains a fascinating article on the "Seven Wonders of the Modern World." They are (1) the giant Itaipu Dam spanning the Parana River at the Brazil/Paraguay border. The dam is an incredible five miles wide, and generates enough power to service California, Brazil and Paraguay. (2) The 1815-foot high CN tower in Toronto. (3) The Panama Canal (it took 42,000 men to construct). (4) The Golden Gate Bridge, with its two 746-feet high towers and cables, each a yard thick, are the biggest ever to support a bridge. (5) The Channel Tunnel, the 31-mile long tunnel connecting Britain and France with walls 5-feet thick. Through the tunnel roar the two widest trains (14-feet across) ever built, running at 100 MPH. (6) Netherlands North Sea Protection Works, which pushes back the angry ocean. It's a 19-mile enclosure dam of enormous dimensions. (7) New York's Empire State Building, 1248-feet high. Work began one day after the '29 crash, was finished one year and 45 days later, without a dime of overtime ever being paid. It contains over 17 million feet of telephone wire.

What of the Seven Wonders of the Future? What's interesting is that Popular Mechanics lists five or the seven to be built in Asia. Two of the seven will be the gigantic Hong Kong Airport and the huge Three Gorges Dam in China. (Putting out 50% more power than the Itaipu!)

* *

China may be run by a dictatorship, but the Chinese understand business. The clip below attests to that (compare the Chinese attitude towards their currency with the Russian attitude).

China may allow currency convertibility next year

By Tony Walker and Peter Montagnon in Beijing

China plans to allow convertibility of its currency on the current account well ahead of a previous 2000 deadline and pos-

in its foreign exchange reserves, which reached $72.9bn at the end of October – a fourfold increase in two years.

In Beijing, an International Monetary Fund official said a decision to allow convertibility

next year on state-owned enterprise reform;

- complete commercialisation of the banks by 2000 to bring them in line with international practice;
- begin to phase out preferential

* *

Most subscribers probably ate turkey for Thanksgiving, but do you really know what you were eating? Three huge companies supply most of the US's turkeys. Today's turkeys have been bred for breasts -- white meat (Americans prefer white meat two-to-one). Consequently today's turkeys have giant breasts, and this has rendered them genetic, top-heavy freaks. The problem is that these freaky birds have extremely weak legs, and male turkeys are so weak-legged that they are unable to mount the females. Thus ALL turkeys today are jump-started by artificial insemination. Ah, it's a long way from today's goofy white-meat-stacked birds to those athletic, fast-moving, nervous, hard-to-find wild turkeys. Any hunter will tell you how difficult it is to bring in a wild turkey.

* *

Violent crime is changing radically. In the old days (the '60s and before) the great majority of violent crimes were committed by assailants who were related to or known to the victims. This made it a lot easier for the police to solve the crimes. Someone in the family or close to the family or doing business with the victim was the criminal. But this has now changed. The great majority of violent crimes today are (1) committed by someone who has no connection to the victim, and (2) committed by a much younger person, probably a teenager. This makes it considerably more difficult to solve the crimes, and as a result, the solving-percentage has dropped considerably, down to 66% and lower in some areas (in the old days 90% of violent crimes were solved). The criminologists' big worry -- the coming explosion in the teenage population, as today's large crop of babies move into their teen years.

* *

Tuition and board at Stanford is $27,000, subway fare on the NYC subway is $1.50 (I still can't believe that one), a box of shredded wheat is $4.40, a pack of gum at 75 cents (I used to pay a nickel), a white dress shirt for $35 (I used to pay $2.50), a necktie at Sulka in NYC for $70 (they were $5 in 1950), a Ford Taurus for over $20,000 (didn't they used to be $16,000?). As a friend complained to me, "No inflation, who is the government kidding? All my real expenses keeping going up. Nothing that I know of is cheaper, nothing."

* *

Amid all the stock market excitement and the various 50-year anniversaries, there is a 100-year anniversary that is well worth noting. Exactly 100 years ago Dr. Sigmund Freud and Dr. Joseph Breur published a book that shook the world. The title was "Studies in Hysteria." The book detailed the treatment and cure of "Anna O" by Freud. The method used was psychoanalysis. Freud's studies of the unconscious form the basis of literally all psychological treatment today. But the pressure from the medical establishment at that time was so vehemently opposed to the theories put forth in the "Hysteria" book that Dr. Breur exited the psychoanalysis camp, preferring to practice medicine and avoiding the anger of his peers. Freud, in the face of condemnation from the Vienna medical association, continued his psychoanalytic studies. Later Freud confessed, "If I had not been a Jew and used to prejudice I probably would have followed Breur's example."

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Last weekend I saw the new Las Vegas film, "Casino." I thought this three-hour film was extremely well-done and fascinating. Sharon Stone surprised me -- she was terrific. After seeing this grim film how anybody can waste his money gambling at Vegas or Atlantic City or at any of the many Indian reservations is totally beyond me. Casino "gaming" is legalized stealing, and if you don't believe me be absolutely sure to see Casino.

I was particularly interested in this film because when I was in my early twenties some of the kids I used to hang out with in NYC knew the notorious Bugsy Siegal. In summer they would go to Vegas and work as bellboys at Bugsy's Flamingo Hotel (hoping to make the "big money"). I had a chance to go, but turned the offer down. In retrospect, I guess it was just as well. One of the guys in the group was tough little (five-foot-four) Dickey Schwartz. Dickey's mom was married to gangster Meyer Lansky. After the War Dickey moved to Miami. One night in a bar Dickey got in an argument with another guy. Being hot-headed, Dickey pulled a gun and killed the other fellow. Bad move. It turned out the guy was Mafia, and killing a Mafia member without "permission" from the higher-ups was a definite no-no. A few weeks later Dickey was killed by a shotgun blast through the windshield of his brand new Cadillac. As they say, violence is as American as apple pie.

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The Pentagon has mounted a $5 billion program calculated to change warfare as we know it. The object -- to produce a high-energy chemical laser gun that would shoot lethal beams a few hundred miles to knock out enemy missiles. The 100,000 pound laser, carried inside a 747 jet, would be powerful enough to destroy targets in about three seconds -- sending missile wreckage dropping back into enemy territory. The project, calculated to take 10 years, pits Rockwell Int. and Hughes Aircraft against Boeing Lockheed Martin. The winning team will be selected in '97. And yes, the Pentagon is very serious.

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Will your corner bank become obsolete? It could be just a matter of time. Intuit recently announced that it's joining with 19 of the largest financial firms in an enterprise which will enable their customers to do their banking and financial transactions on-line. This will mean no trips to the bank or broker, no paper checks to fill out, no stamps to lick or envelopes to buy, and no pile of bills on the kitchen table. In other words, your PC will become literally a branch bank. As I said, I believe it's only a matter of time. And think of the money banks will save if they don't need branches and can get rid of all that real estate.

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RACE: What are the real figures on the US racial breakdown? Here they are, based on the US 1992 census data. Whites in the US 74%. Blacks 11.8%. Hispanics 9.5%. Asian 3.1%. The figures don't add up to 100% because other races are not listed. But Jews are roughly 2.5% of the population, and as a percentage are declining decade by decade due to intermarriage. The great fear among American anti-Semites -- the Jews will disappear entirely. Then who do they hate?

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Business Week magazine and even the *Wall Street Journal* have panned Bill Gates' new book, "The Road Ahead." The complaint is that it talks too much about history and is unconvincing about the future. Also, it seems that a lot of the book was not written by Gates, who's turning into a real publicity hound.

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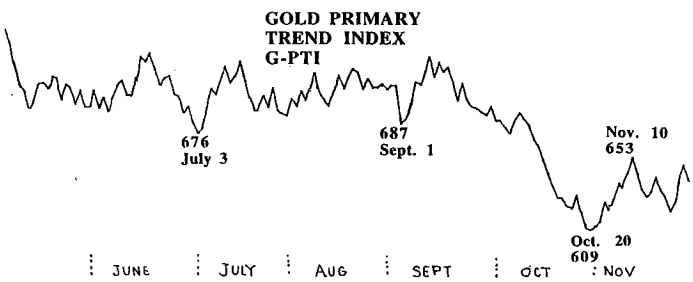
The latest instant billionaire is Steven Jobs (one of the founders of Apple) with a public offering of Pixar Animation Studios. It seems that anything to do with the Internet will sell today. Netscape with third quarter sales of $20.8 million and a net of four cents now has a market value of $5.8 billion. Said Netscape's CEO Jim Clark modestly, "You could argue there's something of an Internet bubble developing." **Russell comment:** It's not "developing," it's here.

GOLD: A subscriber called and requested that I write "a lot more about gold the way I used to." Frankly, there isn't a lot to write about on gold these days. A few weeks ago everything appeared "set" for gold to take off on the upside. All we needed was the reality (mmm), which means the actual sight of gold moving up. It never happened. But then, that's been the gold story over the past umpteenth number of years.

Yet, we do have a number of plusses. First, the leasing (borrowing) cost for gold has been surging. Last week the one-month cost for borrowing gold hit a record high of 6.16%. Furthermore, according to the Commodity Exchange Warehouse, supplies of gold are currently at an 18-month low. This has encouraged gold buying and has obviously put pressure on the short sellers.

On November 28 gold (Dec. contract) climbed over the 390 level, and at the same time the Phila. Gold/Silver Average (XAU) finally climbed above 120. But with gold, upside progress never seems to hold. The borrowing rate for gold is now declining. On December 1 the Dec. gold contract slipped below 390 (discouraging), and the Philly Gold/Silver Average, after rallying encouragingly above 120, dropped below 120 again on December 1 (again discouraging).

Just as my PTI for the stock market has told the real story, so my **Gold PTI (G-PTI)** is telling the real story for the whole gold

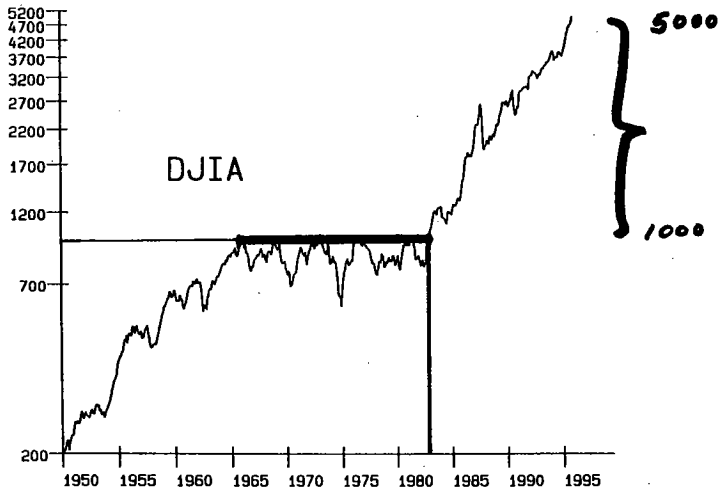


universe. Study the accompanying chart. The G-PTI hit a little peak of 653 on Nov. 10, and at that time it looked as though gold and gold shares were on the way north. But then G-PTI turned down, and now G-PTI is locked in a trading range between 609 and 653.

I read a carload of material on gold each week, and I'm well aware that major gold cycles are supposed to be bottoming out around now. In fact, gold-cycle followers are saying, "This is the time to load up on gold items." Mebbe, but I want to see more. Like I want to see the G-PTI break decisively above 653, and I'd like to see December gold break above 395, and I'd like to see the XAU break decisively above 125. I'd like, I'd like, I'd like.

LATE NOTES: This stock market has confounded literally every system and theory that I know of. The "ever-rising" market has surpassed all yield-ceilings, it has said bye-bye to book-value studies, it has made mince-meat of cycle theories, it has thumbed its nose at Elliott Wave termination points, it has mocked normal or even ultra-normal concepts of corrections, it has made heroes out of super-optimists, it has knocked almost every Wall Street "guru" out of the box, it has made gods out of Warren Buffett and Peter Lynch. It has, in short, been "the bull market that never says die."

This chart from Ed Hyman's *ISI* tells the amazing story. We've tacked on a fat 4,000 Dow points since 1980, and since '82 we've never experienced a single year with the Dow closing below the low of a preceding year. Amazing, extraordinary, unprecedented. A new kind of "bubble"?



But no record goes on forever, and no tree grows to the sky. I'll stake whatever reputation I have that as night follows day, a major bear market will follow this bull market. But when? Ah, that's the catch, dear readers, that's the catch. But you can be sure of one thing -- when the bear market does strike it will not be based on something you read on the front page of the *Wall Street Journal.* No, it will be because the bull market has discounted the BEST that can be seen ahead, and Wall Street knows that when "it can't get any better," that is when it can only get worse.

By the way, on Nov. 29 the Dow A-D (see page 2, last Letter) rose to a new high, thereby confirming the Dow price. Only the A-D ratio for the NYSE still lags.

In the meantime, triumphant bulls can enjoy the never-ending madness. And anxious bears can await the ultimate bursting of the bubble.

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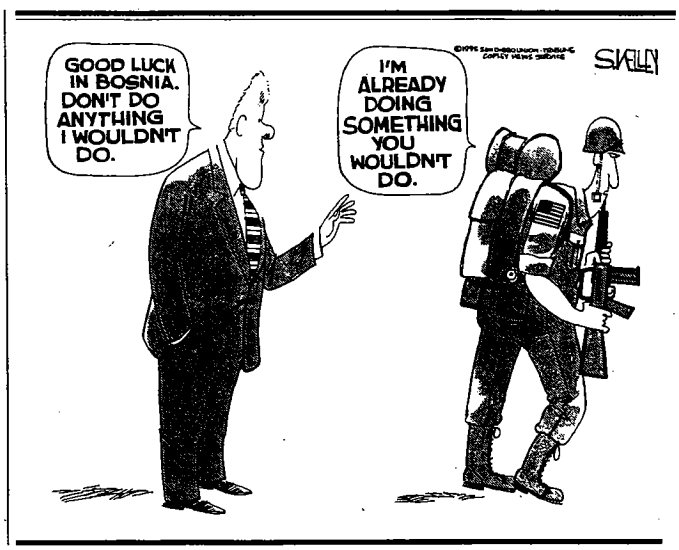
Ah, for our bi-weekly smile. Here's San Diego's own Steve Kelly (cartoonist for the *San Diego Union*) sticking one more pin into the soft underbelly of "The Great Pretender ."



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